

Audited Financial Statements

Town of Kittery, Maine

June 30, 2006

TOWN OF KITTERY
JUL 10 2006



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TOWN OF KITTERY, MAINE

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INDEPENDENT AUDITORS' REPORT

September 5, 2006

Town Council
Town of Kittery
Kittery, Maine

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kittery, Maine, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the Town of Kittery, Maine as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Kittery's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole. The introductory sections and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

CHR Smith & Co.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Kittery, Maine's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Town's financial statements.

1. Brief Discussion of the Basic Financial Statements

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements follow. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the Town as a Whole

One of the most important questions asked about the Town's finances is, "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting* which is similar to the accounting, used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's *net assets* and changes in them. You can think of the Town's net assets - the difference between assets and liabilities - as one way to measure the Town's financial health, or *financial position*. Over time, *increases or decreases* in the Town's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Town's property tax base and the condition of the Town's infrastructure, to assess the *overall health* of the Town.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into three kinds of activities:

- Governmental activities - Most of the Town's basic services are reported here, including police, fire, education, public works and general administration. Property taxes, charges for services, and state and federal grants finance most of these activities.

- Business-type activities – The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Town's sewer department and school lunch program are reported here.
- Fiduciary activities – These are assets held by the Town in a trustee capacity, or as an agent for individuals, private organizations, other governments, and other funds.

Reporting the Town's Most Significant Funds

Our analysis of the Town's major funds begins on page 9. The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, the Town's Town Council establish many other funds to help them control and manage money for particular purposes (like the Fire Station Capital Reserve) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the Department of Education).

The Town's two kinds of funds – governmental and proprietary – use different accounting approaches.

- *Governmental funds* - Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation at the bottom of the fund financial statements.
- *Proprietary funds* – When the Town charges customers for the services it provides – whether to outside customers or to other units of the Town – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Town's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds.

The Town as Trustee

The Town is the trustee, or *fiduciary*, for its students' activity funds. These fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 19. We exclude these activities from the Town's other financial statements because the Town cannot use these assets to finance its operations. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

2. Condensed Financial Information

The Town As A Whole

Our analysis below focuses on the net assets, and changes in net assets of the Town's governmental activities. The Town's total net assets for governmental funds is \$40.8 million. For the business-type activities total net assets is 10.2 million.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - is \$2.7 million at the end of this year.

Table 1
Town of Kittery, Maine
Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities
Assets:		
Current and other assets	\$ 16,705,756	\$ 1,846,551
Capital Assets	40,583,256	12,333,625
Other Assets	-	31,828
Total Assets	<u>\$ 57,289,012</u>	<u>\$ 14,212,004</u>
Liabilities:		
Current Liabilities	\$ 5,828,887	\$ 1,584,598
Long-term Debt Outstanding	10,675,848	2,405,401
Total Liabilities	<u>\$ 16,504,735</u>	<u>\$ 3,989,999</u>
Net Assets:		
Invested in Capital Assets		
Net of related Debt	\$ 29,481,420	\$ 8,498,932
Restricted for Capital projects	5,223,585	-
Special revenues	1,449,368	-
Permanent funds	1,051,461	-
Education	907,040	-
Unrestricted Net Assets	<u>2,671,403</u>	<u>1,723,073</u>
Total Net Assets	<u>\$ 40,784,277</u>	<u>\$ 10,222,005</u>

Table 2
Town of Kittery, Maine
Change in Net Assets
For the Year Ended June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Revenues		
Taxes		
Property	\$ 16,803,903	\$ -
Excise	1,501,895	-
Intergovernmental	2,679,750	142,241
State of Maine on behalf payments	1,222,245	-
Charges for services	899,264	1,661,803
Miscellaneous	1,677,008	221,399
Total Revenue	<u>24,784,065</u>	<u>2,025,443</u>
Expenses		
Current:		
General government	1,603,469	-
Public safety	2,977,094	-
Public works	939,266	-
Health and welfare	1,072,615	-
Social Services	480,944	-
Recreation and culture	59,147	-
Education	12,338,484	-
County tax	678,581	-
Designated accounts	614,484	-
Capital outlay	625,534	-
Unallocated depreciation expense	70,926	-
Interest expense	85,617	-
State of Maine on behalf payments	1,222,245	-
Enterprise fund	-	2,192,345
Total Expenses	<u>22,768,406</u>	<u>2,192,345</u>
 Total transfers	 1,092,900	 (1,092,900)
 Change in Net Assets	 3,108,559	 (1,259,802)
 Net Assets - July 1 (restated)	 <u>37,675,718</u>	 <u>11,481,807</u>
 Net Assets - June 30	 <u>\$ 40,784,277</u>	 <u>\$ 10,222,005</u>

The cost of all governmental activities this year was \$22.8 million. However, as shown in the Statement of Activities on pages 9, the amount that our taxpayers ultimately financed for these activities through Town taxes was only \$19.1 million because some of the cost was paid by those who directly benefited from the programs (\$899,264) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,763,752).

3. Analysis of Balances and Transactions of Individual Funds

Table 3
Town of Kittery, Maine
Net Cost of Services
For the year ended June 30, 2006

	<u>Total Cost of Services</u>	<u>Total Revenue</u>	<u>Net Cost of Services</u>
Governmental activities:			
General government	\$ 1,603,469	\$ 275,950	\$ 1,327,519
Public safety	2,977,094	62,456	2,914,638
Public works	939,266	-	939,266
Recreation and culture	1,072,615	379,176	693,439
Education	12,338,484	1,403,902	10,934,582
All other departments	<u>3,837,478</u>	<u>1,541,532</u>	<u>2,295,946</u>
Total governmental	<u>22,768,406</u>	<u>3,663,016</u>	<u>19,105,390</u>
Business-type activities:			
Sewer department	1,731,704	1,404,416	327,288
School lunch program	<u>460,641</u>	<u>399,628</u>	<u>61,013</u>
Total business-type	<u>2,192,345</u>	<u>1,804,044</u>	<u>388,301</u>
Total government and business	<u><u>\$ 24,960,751</u></u>	<u><u>\$ 5,467,060</u></u>	<u><u>\$ 19,493,691</u></u>

4. Capital Asset and Long-Term Debt Activity

Capital Assets

Table 4
Town of Kittery, Maine
Capital Assets June 30,
(Net of Depreciation)

	2006
Land and improvements	\$ 11,372,269
Buildings and improvements	27,663,833
Furniture and Fixtures	20,493
Machinery and equipment	1,276,555
Vehicles	1,786,914
Construction in progress	1,600,000
Infrastructure	9,196,817
Total	<u>\$ 52,916,881</u>

Debt

At June 30, 2006, the Town had \$10.72 million in bonds outstanding versus \$12.15 million last year, a decrease of 11.75%, as shown in Note 7 of the financial statements.

5. Currently Known Facts, Decisions, or Conditions

Economic Factors and Next Year's Budgets and Rates

The Town has steadily maintained a sufficient undesignated fund balance to sustain government operations for a period of approximately two months, while also maintaining significant reserve accounts for future capital and program needs.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Finance Dept. at, 200 Rogers Road Ext, P.O. Box 808, Kittery, Maine 03904-0808

STATEMENT A

TOWN OF KITTERY, MAINE

STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash	\$ 573,683	\$	\$ 573,683
Investments	13,980,187	693,630	14,673,817
Accounts receivable (net allowance for uncollectibles)			
Taxes	637,998		637,998
Due from other governments	183,892	17,774	201,666
Other	74,243	482,541	556,784
Inventory	-	24,046	24,046
Prepaid expenses	-	8,928	8,928
Tax acquired property	57,716		57,716
Due from other funds	1,198,037	619,632	1,817,669
Total current assets	16,705,756	1,846,551	18,552,307
Noncurrent assets			
Capital assets			
Land, infrastructure, and other assets not being depreciated	12,550,906	21,363	12,572,269
Buildings and vehicles net of accumulated depreciation	28,032,350	12,312,262	40,344,612
Total noncurrent assets	40,583,256	12,333,625	52,916,881
Other assets			
Bond issuance costs (net of amortization)	-	31,828	31,828
TOTAL ASSETS	\$ 57,289,012	\$ 14,212,004	\$ 71,501,016
LIABILITIES			
Current liabilities			
Accounts payable	\$ 185,130	\$ 34,315	\$ 219,449
Accrued Expenses	699,085	22,205	721,290
Due to other funds	619,632	1,198,037	1,817,669
Deferred revenue	144,982	69,771	214,753
Other liabilities	44,315		44,315
Bond anticipation note	2,667,247	-	2,667,247
Current portion of long-term obligations	1,468,496	260,266	1,728,762
Total current liabilities	5,828,887	1,584,598	7,413,485
Noncurrent liabilities			
Noncurrent portion of long-term obligations			
Bonds payable	9,338,440	2,285,926	11,624,366
Capital lease payable	294,900	-	294,900
Accrued compensated absences	1,042,508	119,475	1,161,983
Total noncurrent liabilities	10,675,848	2,405,401	13,081,249
TOTAL LIABILITIES	16,504,735	3,989,999	20,494,734
NET ASSETS			
Invested in capital assets, net of related debt	29,481,420	8,498,932	37,980,352
Restricted for Capital Projects	5,223,585		5,223,585
Special Revenues	1,449,368		1,449,368
Permanent Funds	1,051,461		1,051,461
Education	907,040		907,040
Unrestricted	2,671,403	1,723,073	4,394,476
TOTAL NET ASSETS	40,784,277	10,222,005	51,006,282
TOTAL LIABILITIES AND NET ASSETS	\$ 57,289,012	\$ 14,212,004	\$ 71,501,016

See accompanying independent auditors' report and notes to financial statements

STATEMENT B

TOWN OF KITTEERY, MAINE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- type Activities	Total
Governmental activities							
Current	\$	\$	\$	\$	\$	\$	\$
General government	1,603,469	251,610	24,340	-	(1,327,519)	-	(1,327,519)
Public safety	2,977,094	62,456	-	-	(2,914,638)	-	(2,914,638)
Public works	939,266	-	-	-	(939,266)	-	(939,266)
Recreation and culture	1,072,615	379,176	-	-	(693,439)	-	(693,439)
Health and sanitation	480,944	172,539	-	-	(308,405)	-	(308,405)
Social services	59,147	-	-	-	(59,147)	-	(59,147)
Education	12,338,484	-	1,403,902	-	(10,934,582)	-	(10,934,582)
County tax	678,581	-	-	-	(678,581)	-	(678,581)
State of Maine on behalf payments	1,222,245	-	1,222,245	-	-	-	-
Capital outlay	625,534	-	-	-	(625,534)	-	(625,534)
Unallocated depreciation expense	70,926	-	-	-	(70,926)	-	(70,926)
Designated accounts	614,484	33,483	113,265	-	(467,736)	-	(467,736)
Interest expense	85,617	-	-	-	(85,617)	-	(85,617)
Total governmental activities	22,768,406	899,264	2,763,752	-	(19,105,390)	-	(19,105,390)
Business-type activities							
Sewer department	1,731,704	1,359,416	45,000	-	-	(327,288)	(327,288)
School lunch program	460,641	302,387	97,241	-	-	(61,013)	(61,013)
Total business-type activities	2,192,345	1,661,803	142,241	-	-	(388,301)	(388,301)
Total government and business	24,960,751	2,561,067	2,905,993	-	(19,105,390)	(388,301)	(19,493,691)

STATEMENT B (CONTINUED)
TOWN OF KITTERY, MAINE

STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Changes in net assets:			
Net (expense) revenue	<u>(19,105,390)</u>	<u>(388,301)</u>	<u>(19,493,691)</u>
General revenue:			
Taxes			
Property taxes, levied for general purposes	16,803,903	-	16,803,903
Excise taxes, levied for general purposes	1,501,895	-	1,501,895
Grants and contributions not restricted to specific programs	1,138,243	-	1,138,243
Investment income	203,048	19,500	
Miscellaneous	1,473,960	201,899	1,675,859
Transfers	1,092,900	(1,092,900)	-
Total revenue and transfers	<u>22,213,949</u>	<u>(871,501)</u>	<u>21,119,900</u>
Change in net assets	3,108,559	(1,259,802)	1,848,757
NET ASSETS - JULY 1, 2005	<u>37,675,718</u>	<u>11,481,807</u>	<u>49,157,525</u>
NET ASSETS - JUNE 30, 2006	<u>\$ 40,784,277</u>	<u>\$ 10,222,005</u>	<u>\$ 51,006,282</u>

See accompanying independent auditors' report and notes to financial statements.

TOWN OF KITTY, MAINE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	General Fund	Fire Station Capital	Sewer Capital Reserve	School Construction	Nonmajor Funds	Totals Governmental Funds
ASSETS						
Cash	\$ 243,529	\$ -	\$ -	\$ 137,836	\$ 192,318	\$ 573,683
Investments	9,242,547	1,476,998	-	-	3,260,642	13,980,187
Receivables (net of allowance for uncollectibles)						
Taxes/liens	637,998	-	-	-	-	637,998
Due from other governments	80,803	-	-	-	103,089	183,892
Other	-	-	-	-	74,243	74,243
Tax acquired property	57,716	-	-	-	-	57,716
Due from other funds	102,190	-	1,154,000	524,896	901,907	2,682,993
TOTAL ASSETS	\$ 10,364,783	\$ 1,476,998	\$ 1,154,000	\$ 662,732	\$ 4,532,199	\$ 18,190,712
LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts payable	\$ 141,768	\$ -	\$ -	\$ 1,650	\$ 41,712	\$ 185,130
Accrued payroll	665,738	-	-	-	-	665,738
Payroll related liabilities	33,347	-	-	-	-	33,347
Due to other funds	2,046,435	-	-	-	58,153	2,104,588
Other deferred revenue	144,982	-	-	-	-	144,982
Deferred tax revenues	366,527	-	-	-	-	366,527
Other liabilities	44,315	-	-	-	-	44,315
TOTAL LIABILITIES	3,443,112	-	-	1,650	99,865	3,544,627
Fund Equity						
Unreserved, reported in						
General Fund						
Designated	907,040	-	-	-	-	907,040
Undesignated	6,014,631	-	-	-	-	6,014,631
Special Revenue Funds	-	-	-	-	1,449,368	1,449,368
Capital Projects Funds	-	1,476,998	1,154,000	661,082	1,931,505	5,223,585
Permanent Funds	-	-	-	-	1,051,461	1,051,461
TOTAL FUND EQUITY	6,921,671	1,476,998	1,154,000	661,082	4,432,334	14,646,085
TOTAL LIABILITIES AND FUND EQUITY	\$ 10,364,783	\$ 1,476,998	\$ 1,154,000	\$ 662,732	\$ 4,532,199	\$ 18,190,712

STATEMENT C (CONTINUED)
TOWN OF KITTERY, MAINE

BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2006

	<u>Total Governmental Funds</u>
Total Fund Equity	\$ 14,646,085
Amounts reported for governmental activities in the statement are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	40,583,256
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds shown above	
Taxes and liens receivable	366,527
Short-term liabilities are not available to pay for current-period expenditures and therefore are deferred in the funds shown above	
Ban anticipation note	(2,667,247)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(10,718,440)
Capital lease payable	(383,396)
Accrued compensated absences	<u>(1,042,508)</u>
Net assets of governmental activities	<u>\$ 40,784,277</u>

See accompanying independent auditors' report and notes to financial statements

STATEMENT D

TOWN OF KITTERY, MAINE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Fire Station Capital	Sewer Capital Reserve	School Construction	Nonmajor Funds	Totals Governmental Funds
REVENUES						
General tax revenue	\$ 18,305,798	\$ -	\$ -	\$ -	\$ -	\$ 18,305,798
Intergovernmental revenue	2,679,750	-	-	-	-	2,679,750
Charges for services	899,264	-	-	-	-	899,264
Investment income	185,308	12,632	-	5,108	-	203,048
State of Maine on-behalf payments	1,222,245	-	-	-	-	1,222,245
Other revenue	120,380	-	-	50,716	1,302,864	1,473,960
TOTAL REVENUES	23,412,745	12,632	-	55,824	1,302,864	24,784,065
EXPENDITURES						
Current						
General government	1,394,466	-	-	-	29,907	1,424,373
Public safety	2,659,495	-	-	-	74,847	2,734,342
Public works	849,973	-	-	-	177,393	1,027,366
Recreation and culture	1,072,615	-	-	-	-	1,072,615
Health and sanitation	646,306	-	-	-	-	646,306
Social services	59,147	-	-	-	-	59,147
Education	12,917,662	-	-	-	598,624	13,516,286
County tax	678,581	-	-	-	-	678,581
State of Maine on behalf payments	1,222,245	-	-	-	-	1,222,245
Debt service	425,617	-	-	-	-	425,617
Capital outlay	614,484	1,202,881	-	151,971	459,826	1,814,678
Designated	22,540,591	1,202,881	-	151,971	1,340,597	25,236,040
TOTAL EXPENDITURES	872,154	(1,190,249)	-	(96,147)	(37,733)	(451,975)
EXCESS REVENUES OVER (UNDER) EXPENDITURES						
OTHER FINANCING SOURCES						
Proceeds from debt	-	2,667,247	-	-	-	2,667,247
Operating transfers in	282,851	-	1,154,000	303,486	565,867	2,306,204
Operating transfers (out)	(874,110)	-	-	-	(339,194)	(1,213,304)
TOTAL OTHER FINANCING SOURCES (USES)	(591,259)	2,667,247	1,154,000	303,486	226,673	3,760,147
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES						
	280,895	1,476,998	1,154,000	207,339	188,940	3,308,172
FUND BALANCES - JULY 1	6,640,776	-	-	453,743	4,243,394	11,337,913
FUND BALANCES - JUNE 30	\$ 6,921,671	\$ 1,476,998	\$ 1,154,000	\$ 661,082	\$ 4,432,334	\$ 14,646,085

See accompanying independent auditors' report and notes to financial statements

TOWN OF KITTERY, MAINE
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (Statement D) \$ 3,308,172

Amounts reported for governmental activities in the Statement of Activities
 (Statement B) are different because:

Governmental funds report capital outlays as expenditures while governmental activities
 report depreciation expense to allocated those expenditures over the life of the assets:

Capital asset purchases capitalized	1,504,747
Depreciation expense	<u>(633,586)</u>
	<u>871,161</u>

Revenues in the Statement of Activities that do not provide current financial
 resources are not reported.

Taxes and liens receivable	<u>(86,472)</u>
----------------------------	-----------------

Debt proceeds provide current financial resources to governmental funds, but
 long-term liabilities in the Statement of Net Assets.

(2,667,436)

Repayment of long-term debt principal is an expenditure in the governmental
 funds, but the repayment reduces long-term liabilities in the Statement of
 Net Assets

1,517,802

Some expenses reported in the Statement of Activities do not require the use of
 current financial resources and therefore are not reported as expenditures in
 governmental funds:

Accrued compensated absences	<u>165,332</u>
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Change in net assets of governmental activities (Statement B) \$ 3,108,559

See accompanying independent auditors' report and notes to financial statements.

STATEMENT F

TOWN OF KITTERY, MAINE

BALANCE SHEET - ENTERPRISE FUNDS
JUNE 30, 2006

	Sewer Department	School Lunch Program	Totals
ASSETS			
Current assets:			
Investment	\$ 681,259	\$ 12,371	\$ 693,630
Due from other governments	-	17,774	17,774
Accounts receivable	482,541	-	482,541
Inventory	-	24,046	24,046
Prepaid expenses	8,928	-	8,928
Due from other funds	619,632	-	619,632
Total current assets	<u>1,792,360</u>	<u>54,191</u>	<u>1,846,551</u>
Noncurrent assets:			
Land and buildings	21,363	-	21,363
Vehicles and equipment	-	98,256	98,256
Plant / infrastructure	<u>15,121,011</u>	<u>-</u>	<u>15,121,011</u>
Total capital assets	<u>15,142,374</u>	<u>98,256</u>	<u>15,240,630</u>
Less: accumulated depreciation	<u>(2,852,468)</u>	<u>(54,537)</u>	<u>(2,907,005)</u>
Net capital assets	<u>12,289,906</u>	<u>43,719</u>	<u>12,333,625</u>
Other assets:			
Bond issuance costs(net of amortization)	<u>31,828</u>	<u>-</u>	<u>31,828</u>
TOTAL ASSETS	<u><u>\$ 14,114,094</u></u>	<u><u>\$ 97,910</u></u>	<u><u>\$ 14,212,004</u></u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 34,319	\$ -	\$ 34,319
Accrued payroll	-	22,205	22,205
Deferred revenue	69,771	-	69,771
Due to other funds	1,154,000	44,037	1,198,037
Current portion of long-term debt	<u>260,266</u>	<u>-</u>	<u>260,266</u>
Total current liabilities	<u>1,518,356</u>	<u>66,242</u>	<u>1,584,598</u>
Noncurrent liabilities			
Bonds payable	2,285,926	-	2,285,926
Accrued compensated absences	<u>119,475</u>	<u>-</u>	<u>119,475</u>
Total noncurrent liabilities	<u>2,405,401</u>	<u>-</u>	<u>2,405,401</u>
Total Liabilities	<u>3,923,757</u>	<u>66,242</u>	<u>3,989,999</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,455,213	43,719	8,498,932
Unrestricted	<u>1,735,124</u>	<u>(12,051)</u>	<u>1,723,073</u>
TOTAL NET ASSETS	<u>10,190,337</u>	<u>31,668</u>	<u>10,222,005</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 14,114,094</u></u>	<u><u>\$ 97,910</u></u>	<u><u>\$ 14,212,004</u></u>

See accompanying independent auditors' report and notes to financial statements

STATEMENT G

TOWN OF KITTERY, MAINE
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006

	Sewer Department	School Lunch Program	Totals
OPERATING REVENUES			
Intergovernmental revenue	\$ 45,000	\$ 97,241	\$ 142,241
Charges for services	1,359,416	302,387	1,661,803
Other	178,182	23,717	201,899
TOTAL OPERATING REVENUES	<u>1,582,598</u>	<u>423,345</u>	<u>2,005,943</u>
OPERATING EXPENSES			
Payroll and taxes	102,008	230,508	332,516
Benefits	102,897	-	102,897
Treatment plant	924,420	-	924,420
Pumping station	217,768	-	217,768
Food expense	-	198,427	198,427
Supplies	-	9,471	9,471
Lien expense	81,919	-	81,919
Depreciation	205,300	5,105	210,405
Other	39,324	17,130	56,454
TOTAL OPERATING EXPENSES	<u>1,673,636</u>	<u>460,641</u>	<u>2,134,277</u>
OPERATING INCOME (LOSS)	<u>(91,038)</u>	<u>(37,296)</u>	<u>(128,334)</u>
NON-OPERATING INCOME (EXPENSE)			
Transfers in	61,100	-	61,100
Transfers out	(1,154,000)	-	(1,154,000)
Interest income	19,500	-	19,500
Interest expense	(58,068)	-	(58,068)
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(1,131,468)</u>	<u>-</u>	<u>(1,131,468)</u>
EXCESS OF OPERATING INCOME (LOSS) OVER NON-OPERATING INCOME (EXPENSE)	(1,222,506)	(37,296)	(1,259,802)
NET ASSETS - JULY 1	<u>11,412,843</u>	<u>68,964</u>	<u>11,481,807</u>
NET ASSETS - JUNE 30	<u>\$ 10,190,337</u>	<u>\$ 31,668</u>	<u>\$ 10,222,005</u>

See accompanying independent auditors' report and notes to financial statements

STATEMENT H

TOWN OF KITTERY, MAINE

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Sewer Department	School Lunch Program	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,444,690	\$ 305,580	\$ 1,750,270
Intergovernmental receipts	45,000	79,467	124,467
Other receipts	178,182	23,717	201,899
Internal activity - receipts (payments) from/to other funds	(1,131,468)	-	(1,131,468)
Payments to employees	(204,905)	(230,508)	(435,413)
Payments to suppliers	(200,715)	(208,489)	(409,204)
Net cash provide by operating activities	<u>130,784</u>	<u>(30,233)</u>	<u>100,551</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Invested cash	177,053	-	177,053
Interest income	19,500	-	19,500
Payments for purchases of fixed assets	-	-	-
Net cash used by financing activities	<u>196,553</u>	<u>-</u>	<u>196,553</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest payments on bond payable	(58,068)	-	(58,068)
Principal payments on bond payable	(259,582)	-	(259,582)
Net cash used by financing activities	<u>(317,650)</u>	<u>-</u>	<u>(317,650)</u>
NET INCREASE (DECREASE) IN CASH	<u>9,687</u>	<u>(30,233)</u>	<u>221,648</u>
CASH - JULY 1	<u>671,572</u>	<u>42,604</u>	<u>714,176</u>
CASH - JUNE 30	<u>\$ 681,259</u>	<u>\$ 12,371</u>	<u>\$ 935,824</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss) and other financing	\$ (1,222,506)	\$ (37,296)	\$ (1,259,802)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	205,300	5,105	210,405
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	713,834	5,961	719,795
(Increase) decrease in prepaid expenses	(8,928)	-	(8,928)
(Increase) decrease in inventory	-	(2,768)	(2,768)
(Increase) decrease in due from other funds	(619,632)	-	(619,632)
(Increase) decrease in due from other governments	-	(17,774)	(17,774)
(Decrease) increase in accounts payable	(2,900)	(28,405)	(31,305)
(Decrease) increase in accrued payroll	(88,384)	907	(87,477)
(Decrease) increase in due to other funds	1,154,000	44,037	1,198,037
NET CASH PROVIDED (USED) BY ACTIVITIES	<u>\$ 130,784</u>	<u>\$ (30,233)</u>	<u>\$ 100,551</u>

See accompanying independent auditors' report and notes to financial statements

TOWN OF KITTERY, MAINE

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS	
Current assets:	
Cash	\$ 63,043
TOTAL ASSETS	<u>\$ 63,043</u>
LIABILITIES	
Deposits held for others	\$ 63,043
TOTAL LIABILITIES	<u>63,043</u>
NET ASSETS	
Held in trust for special purposes	-
TOTAL NET ASSETS	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 63,043</u>

See accompanying independent auditors' report and notes to financial statements

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Kittery conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant of such policies.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. The more significant accounting policies established in GAAP and used by the Town are discussed below.

In June of 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

The financial statements include:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the Town's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Town's activities, including infrastructure (roads, bridges, etc.).

A change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

Principles Determining Scope of Reporting Entity

The financial statements of the Town consist only of the funds of the Town of Kittery, Maine.

Basic Financial Statements - Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds).

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Both the governmental-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's sewer department and school lunch program are categorized as business-type activities. All other activities of the town are categorized as governmental.

In the government-wide Statement of Net Assets, both the governmental activities and business-type columns are (a) presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions and business-type activities (general government, public safety, etc.). The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, miscellaneous revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activities. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc.).

The Town does not allocate indirect costs. All costs are charged directly to the corresponding department.

The government-wide focus reflects the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

Basic Financial Statements - Fund Financial Statements

The financial transactions of the Town are reported in the individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following fund types are used by the Town:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

a. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

b. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

c. Permanent Funds are used to account for assets held by the Town pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

d. The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

2. Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Operating revenues include charges for services, intergovernmental reimbursements and other miscellaneous fees which are a direct result of the proprietary activity. Non-operating revenues are any revenues which are generated outside of the general proprietary activity, i.e. interest income. The following is description of the proprietary funds of the Town:

- a. Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) established fees and charges based on a pricing policy designed to recover similar costs.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenses of either the fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

1. Accrual

Governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the trust funds consider all purchased government securities to be held on to for three months or less when purchased, to be cash equivalents.

Investments

It is the Town's policy to value investments at fair value. None of the Town's investments are reported at amortized cost. The Town Treasurer is authorized by State Statutes to invest all excess funds in the following:

- Obligations of the U.S. Government, its agencies and instrumentalities.
- Certificates of deposits and other evidences of deposits at banks, savings and loan associations, and credit unions.
- Repurchase agreements
- Money market mutual funds

Inventories

Inventories of supplies are considered to be expenditures at the time of purchase and are not included in the general fund balance sheet. The enterprise fund inventory consists of school lunch supplies and food on hand at the end of the year, valued at cost.

Revenue Recognition – Property Taxes – Modified Accrual Basis

The Town's property tax for the current year was levied on August 30, 2005, on the assessed value listed as of April 1, 2005, for all taxable real and personal property located in the Town. Taxes were due in two installments on December 10, 2005, and June 10, 2006. Interest on unpaid taxes commenced on December 11, 2005, and June 11, 2006, at 7.75% per annum.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. The remaining receivables have been recorded as deferred revenues.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$311,640 for the year ended June 30, 2006.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end. The Town of Kittery utilize encumbrance accounting for its general fund. Since there were no outstanding encumbrances at the Town for the year ended June 30, 2006, no reservation of fund balance was recorded.

Budget

The Town of Kittery's policy is to adopt an annual budget for operations. The budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

The following procedures are followed in establishing budgetary data reflected in the financial statements:

1. Early in the second half of the year the Town prepared a budget for the fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the inhabitant of the Town of Kittery was then called for the purpose of adopting the proposed budget after public notice of the meeting was given.
3. The budget was adopted subsequent to passage by the inhabitant of the Town.
4. The Town does not adopt budgets for Special Revenue Funds.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - CAPITAL ASSETS

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Infrastructure such as streets, traffic signals, and signs are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives.

In 2004, the Town undertook a program to record its investment property, plant and equipment. An inventory of all existing assets with a useful life of more than five years and a value of greater than \$5,000 was taken. The assets were valued at historical cost when available and estimated historical cost where actual invoices or budgetary data was unavailable. Donated fixed assets were valued at their estimated fair market value on the date received. All retirements have been recorded by eliminating the net carrying values.

GASB Statement No. 34 requires the Town to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to independently owned utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2006. The Town has elected to implement both the general provisions of GASB Statement No. 34 and the retroactive infrastructure provisions in the current fiscal year ended June 30, 2006.

Buildings	20-50 years
Infrastructure	50-100 years
Machinery and equipment	3-50 years
Vehicles	3-25 years

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - CAPITAL ASSETS (CONTINUED)

The following is a summary of changes in capital assets at June 30, 2006:

	Balance, 7/1/05	Additions	Disposals	Balance, 6/30/06
<u>Governmental activities</u>				
Non-depreciated assets:				
Land	\$ 10,950,906	\$ -	\$ -	\$ 10,950,906
Construction in progress	-	1,600,000	-	1,600,000
Art works & historical treasures	-	-	-	-
	<u>10,950,906</u>	<u>1,600,000</u>	<u>-</u>	<u>12,550,906</u>
Depreciated assets:				
Land Improvements	-	400,000	-	400,000
Buildings	26,383,886	-	-	26,383,886
Building improvements	261,334	1,189,044	-	1,450,378
Furniture & fixtures	105,226	-	-	105,226
Machinery & equipment	2,653,916	-	-	2,653,916
Vehicles	2,708,812	-	-	2,708,812
Infrastructure	9,381,629	-	-	9,381,629
	<u>41,494,803</u>	<u>1,589,044</u>	<u>-</u>	<u>43,083,847</u>
Less: accumulated depreciation	<u>(13,561,555)</u>	<u>(1,489,942)</u>	<u>-</u>	<u>(15,051,497)</u>
	<u>27,933,248</u>	<u>99,102</u>	<u>-</u>	<u>28,032,350</u>
Net capital assets	<u>\$ 38,884,154</u>	<u>\$ 1,699,102</u>	<u>\$ -</u>	<u>\$ 40,583,256</u>

Admin	\$ 113,764
Public Works	184,907
Public Safety	263,989
Education	856,356
Unallocated	70,926
Total depreciation expense	<u>\$ 1,489,942</u>

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 - CAPITAL ASSETS (CONTINUED)

	Balance, 7/1/05	Additions	Disposals	Balance, 6/30/06
<u>Business-type activities</u>				
Non-depreciated assets:				
Land	\$ 21,363	\$ -	\$ -	\$ 21,363
	21,363	-	-	21,363
Depreciated assets:				
Buildings	14,890,259	-	-	14,890,259
Machinery & equipment	329,008	-	-	329,008
	15,219,267	-	-	15,219,267
Less: accumulated depreciation	(2,696,600)	(210,405)	-	(2,907,005)
	12,522,667	(210,405)	-	12,312,262
Net capital assets	\$ 12,544,030	\$ (210,405)	\$ -	\$ 12,333,625

NOTE 3 - CASH AND INVESTMENTS

The Town maintains a cash pool that is available for use by all funds. Each fund type's position of this pool is displayed on the combined balance sheet and "due from other funds" under each funds caption.

Deposits

The Town's cash is categorized to give an indication of the level of risk assumed by the Town at year-end. These categories are defined as follows:

Category #1 - Insured or collateralized with securities held by the Town or by its agent in the Town's name.

Category #2 - Collateralized with securities held by the pledging financial institutions trust department or agent in the Town's name.

Category #3 - Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name.)

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Account Type	Carrying Amount	Bank Balance	Category		
			#1	#2	#3
Checking accounts	\$ 515,628	\$ 848,266	\$ 276,472	\$ 571,794	\$ -
Savings	16,670	16,670	16,670	-	-
Certificate of Deposit	104,428	104,428	100,000	4,428	-
	<u>\$ 636,726</u>	<u>\$ 969,364</u>	<u>\$ 393,142</u>	<u>\$ 576,222</u>	<u>\$ -</u>

The Town has determined that it has complied with state and federal laws governing the deposit of public funds.

Investments

The Town's investments are categorized to give an indication of the level of risk assumed by the Town at year-end. These categories are defined as follows:

- Category #1 - Includes investments that are insured or registered, or securities held by the Town or its agent in the Town's name.
- Category #2 - Includes uninsured and unregistered investments with securities held by the counterparty's trust department (if a bank) or agent in the entity's name.
- Category #3 - Includes uninsured and unregistered investments with securities held by the counterparty in the entity's name or held by the counterparty's trust department (if a bank) or agent but not in the entity's name.

Investment Type	Carrying Amount	Market Value	Category		
			#1	#2	#3
Investment Management	\$ 4,472,864	\$ 4,472,864	\$ -	\$ 4,472,864	\$ -
Equities	251,560	251,560	-	251,560	-
Fixed Income	1,217,180	1,217,180	-	1,217,180	-
Cash Equivalents	574,039	574,039	-	574,039	-
Repurchase Agreement	8,158,174	8,158,174	-	8,158,174	-
	<u>\$ 14,673,817</u>	<u>\$ 14,673,817</u>	<u>\$ -</u>	<u>\$ 14,673,817</u>	<u>\$ -</u>

The Town has determined that it has complied with state and federal laws governing the investment of public funds.

TOWN OF KITTERY, MAINE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 4 - ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for uncollectible accounts was estimated to be \$ 0 at June 30, 2006.

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2006 consisted of the following individual fund receivables and payables.

	<u>Receivables</u> <u>(Due from)</u>	<u>Payables</u> <u>(Due to)</u>
General fund	\$ 102,190	\$ 2,046,435
Special revenue fund	789,256	40,134
Capital project fund	1,791,547	18,019
Permanent fund	-	-
Enterprise fund	619,632	1,198,037
	<u>3,302,625</u>	<u>3,302,625</u>

NOTE 6 - DEFERRED REVENUES

Deferred Revenues at June 30, 2006 consisted of \$ 144,000 of Medicaid reimbursements for the Kittery School.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7 –LONG TERM DEBT

The following is a summary of changes in the long-term debt for the year ended June 30, 2006:

	Balance, 7/1/05	Additions	Deletions	Balance, 6/30/06	Due Within One Year
Governmental Activities					
Bonds payable	\$ 12,145,550	\$ -	\$ (1,427,110)	10,718,440	\$ 1,380,000
Capital leases payable	372,103	101,985	(90,692)	383,396	88,496
Accrued compensated absences	877,176	165,332	-	1,042,508	-
Total Governmental Activities	<u>\$ 13,394,829</u>	<u>\$ 267,317</u>	<u>\$ (1,517,802)</u>	<u>\$ 12,144,344</u>	<u>\$ 1,468,496</u>
Business-type Activities					
Bonds payable	\$ 2,805,774	\$ -	\$ (259,582)	\$ 2,546,192	\$ 260,266
Accrued compensated absences	74,894	44,581	-	119,475	-
	<u>\$ 2,880,668</u>	<u>\$ 44,581</u>	<u>\$ (259,582)</u>	<u>\$ 2,665,667</u>	<u>\$ 260,266</u>

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7 - LONG TERM DEBT (CONTINUED)

The following is a summary of outstanding bonds payable:

	<u>Governmental</u>	<u>Business - type</u>
<u>Bonds</u>		
School Bonds Dated October 1990 The interest rate fluctuates over the term of the issue from a low of 7% to a high of 7.735%. Interest is payable semiannually. Principle is payable in annual installments of \$345,000 to \$350,000 through 2011	\$ 1,725,000	\$ -
School bond dated November 1995 The interest rate fluctuates over the term of the issue from 5.125% to 5.750%. Interest is payable semiannually. Principle is payable in annual installments of \$345,000 through 2016	3,450,000	-
School bond dated January 1997 The interest rate fluctuates over the term of the issue from 4.8% to 6.5%. Interest is payable semiannually. Principle is payable in annual installments of \$135,000 through 2012	785,000	-
Sanitary sewer bond of 1986, interest rate 4.25% - 7.02%, annual principle payments of \$90,000 - \$95,000 through 2008.	95,000	-
Sewer expansion bonds of 1988, interest rate 6.00% - 7.70%, annual principal payments of \$80,000 - \$85,000 through 2008.	240,000	-
Capital improvement bond of 1989, interest rate 7.25% - 7.30%, annual principal payments of \$165,000 through 2009	660,000	-
Water and sewer facilities bond of 1993, interest rate 4.1%, annual principle payments of \$200,000, maturity in 2012.	-	1,400,000
Waste water state revolving loan fund bond of 2003, interest rate 1.94%, annual principal payments sufficient to amortize balance over 20 years, maturity in 2022	-	1,146,192
School bond dated November 2002. The interest rate fluctuates over the term of the issue from a low of 3.25% to a high of 5.00%. Interest is payable semiannually. Principle is payable in annual installments of \$210,000 to \$215,000 through 2022	3,575,000	-
School bonds dated January 2005, interest rate of 0%, principal payments of \$47,110 annually through 2009	188,440	-
	<u>10,718,440</u>	<u>2,546,192</u>

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7 - LONG TERM DEBT (CONTINUED)

The following is a summary of outstanding bond principal and interest requirements for the next five fiscal years ending June 30:

Governmental Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 1,427,110	\$ 541,818	\$ 1,968,928
2008	1,322,110	463,123	1,785,233
2009	1,322,110	387,706	1,709,816
2010	1,242,110	314,742	1,556,852
2011	1,030,000	250,406	1,280,406
2012-2016	2,905,000	714,335	3,619,335
2017-2021	1,050,000	232,880	1,282,880
2022-2027	420,000	21,000	441,000
	<u>\$ 10,718,440</u>	<u>\$ 2,926,010</u>	<u>\$ 13,203,450</u>

Business Type Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2007	\$ 260,266	\$ 62,413	\$ 322,679
2008	260,979	54,706	315,685
2009	261,723	46,967	308,690
2010	262,500	39,196	301,696
2011	263,310	31,390	294,700
2012-2016	729,993	69,944	799,937
2017-2021	356,233	29,176	385,409
2022-2027	151,188	2,788	153,976
	<u>\$ 2,546,192</u>	<u>\$ 336,580</u>	<u>\$ 2,728,796</u>

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7 –LONG TERM DEBT (CONTINUED)

The following is a summary of outstanding capital leases payable:

Capital Leases

	<u>Governmental</u>	<u>Business - type</u>
Equipment Lease of 2004, interest rate 7.34, annual payments of \$30,800, including interest, maturity in 2006	16,533	-
Equipment lease of 2004, interest rate 3.5%, annual payments of \$29,215, including interest, maturity in 2009	107,310	-
Equipment lease of 2004, interest rate 4.61%, annual payments of \$22,865, including interest, maturity in 2014	165,379	-
Equipment lease of 2006, interest rate 5.35%, annual payments of \$15,000 or \$31,522.12, including interest, maturity in 2008	94,174	-
	<u>\$ 383,396</u>	<u>\$ -</u>

Future minimum payments, by year and in the aggregate, under these leases are as follows:

2007	\$ 117,335
2008	85,107
2009	83,602
2010	52,081
2011	22,865
2012-2016	<u>91,461</u>
Total minimum lease payments	452,451
Less: Amount representing interest	<u>(69,055)</u>
Present value of future minimum lease payments	<u>\$ 383,396</u>

All bonds payable and capital leases payable are direct obligations of the Town, for which its full faith and credit are pledged. The Town is not obligated for any special assessment debt. All debt is payable from taxes levied on all taxable property within the Town.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8 – RESERVED FUND BALANCE

The following net assets have been reserved at June 30, 2006 for the following purposes:

Reserved for education	\$ 894,558
Reserved for general fund designated balances	-
Reserved for special revenue funds	1,449,368
Reserved for capital project funds	5,223,585
Reserved for permanent funds	1,051,461
	<u>\$ 8,618,972</u>

NOTE 9– GENERAL FUND DESIGNATED FUND EQUITY

At June 30, 2006, the general fund designated fund balance was made up of the following account balances carried forward into the subsequent year's budget:

Block Party	\$ 800
Foreside Project Funds	3,748
Volunteer Recognition	1,199
Shelfish Commission	1,350
Conservation Commission	5,385
Education	894,558
	<u>\$ 907,040</u>

NOTE 10 – RISK MANAGEMENT – PARTICIPATION IN A PUBLIC ENTITY RISK POOL

The Town is a member of the Maine Municipal Association – Property and Casualty Pool ("Pool"). The District pays an annual premium for its property and liability coverage. Under the property coverage portion of the Pool, coverage is provided after the deductible is met, and is based on replacement cost. Under the liability portion of the Pool, coverage is provided after the deductible is met, to \$1,000,000.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 11 - CONTINGENCIES

The Town is responsible for its proportionate share of County debt. As of June 30, 2006 the Town's share was as follows:

	<u>Outstanding Debt</u>	<u>Town's Percentage</u>	<u>Total Share</u>
County of York	\$ 15,400,000	5.50%	\$ 846,905
			<u>\$ 846,905</u>

NOTE 12 – DEFINED BENEFITS PENSION PLAN

MAINE STATE RETIREMENT SYSTEM

The Town participates in the Maine State Retirement System, a cost sharing multi-employer defined benefit pension plan which covers employees who work at least 40 hours per week. The system requires that both employees and the Town contribute, and provides retirement, disability and death benefits. Employees are eligible for normal retirement upon reaching the age of sixty and early retirement after completing twenty-five or more years of credited service. The Town's contributions to the plan for 2006, 2005, and 2004 were \$79,591, \$74,158, and \$66,782, respectively.

All school teachers, plus other qualified educators, participate in the Maine State Retirement System's teacher group. The system is an agent multiple-employer public retirement system. The school department's payroll for employees covered by this group was approximately \$6,382,480 for the year ended June 30, 2006. The State of Maine is required to contribute the employer contribution which amounts to 19.15% of compensation. Contributions paid by the State were approximately \$1,222,245 for the year ended June 30, 2006. There is no contribution required by the Town, except for federally funded teachers. For the year ended June 30, 2006, the Town contributed approximately \$59,164 for these federally funded employees. The funding status and progress for the System may be obtained by contacting the Maine State Retirement System.

NOTE 13 – DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 13 – DEFERRED COMPENSATION PLAN

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) to be held in a trust for the exclusive benefit of the participants and their beneficiaries.

It is the opinion of the Town's management that the Town has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

NOTE 14 – EXPENDITURES OVER APPROPRIATIONS

The following appropriations were exceeded by actual expenditures:

	Excess
Education	\$ 43,993
	<u>\$ 43,993</u>

NOTE 15 – RESTATEMENT OF FUND BALANCE / NET ASSETS

The financial statements have been restated from the prior year to reflect adjustments for deferred revenue, transfers, capital assets and accounts payable that were not recorded in the previous fiscal year.

Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Government Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule - General Fund
- Schedule of Revenues Budget to Actual – General Fund

SCHEDULE 1

TOWN OF KITTERY, MAINE

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Favorable (Unfavorable)
Budgetary Fund Balance, July 1 - Restated	\$ 6,640,776	\$ 6,640,776	\$ 6,640,776	\$ -
Resources (Inflows):				
General tax revenue	18,116,624	18,116,624	18,305,798	189,174
Intergovernmental revenue	2,333,962	2,447,727	2,679,750	232,023
Charges for services	812,400	812,400	899,264	86,864
Investment income	42,500	42,500	185,308	142,808
Other revenue	98,050	98,050	120,380	22,330
Transfers from other funds	225,000	225,000	282,851	57,851
Amounts Available for Appropriation	28,269,312	28,383,077	29,114,127	731,050
Charges to Appropriation (Outflows):				
Current:				
General government	1,412,386	1,412,386	1,394,466	17,920
Public safety	2,739,949	2,739,949	2,659,495	80,454
Public works	912,168	912,168	849,973	62,195
Recreation and culture	1,134,758	1,134,758	1,072,615	62,143
Health and sanitation	689,703	689,703	646,306	43,397
Social services	61,361	61,361	59,147	2,214
Education	12,873,669	12,873,669	12,917,662	(43,993)
County tax	678,581	678,581	678,581	-
Debt service	425,617	425,617	425,617	-
Designated	311,604	1,024,890	614,484	410,406
Transfers to other funds	874,110	874,110	874,110	-
Total Charges to Appropriations	22,113,906	22,827,192	22,192,456	634,736
Budgetary Fund Balance, June 30	\$ 6,155,406	\$ 5,555,885	\$ 6,921,671	\$ 1,365,786

See accompanying independent auditors' report.

SCHEDULE 2

TOWN OF KITTERY, MAINE

SCHEDULE OF REVENUES BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
General tax revenues				
Property taxes	\$ 16,745,624	\$ 16,745,624	\$ 16,803,903	\$ 58,279
Vehicle excise taxes	1,350,000	1,350,000	1,436,237	86,237
Boat excise taxes	21,000	21,000	65,658	44,658
Intergovernmental revenues				
Education subsidy	1,036,557	1,036,557	1,036,557	-
State revenue sharing	651,920	651,920	747,099	95,179
Homestead exemption	149,038	149,038	149,098	60
Other education revenue	238,000	238,000	366,098	128,098
Homeland security grant	-	113,765	113,765	-
GMH Housing	207,450	207,450	211,546	4,096
Resource officer grant	41,997	41,997	31,247	(10,750)
General assistance	9,000	9,000	24,340	15,340
Charges for services				
Recreation fees	270,000	270,000	264,094	(5,906)
Code enforcement fees	160,000	160,000	197,453	37,453
Registration fees	27,500	27,500	29,643	2,143
Town clerk fees	12,500	12,500	14,886	2,386
Planning fees	5,000	5,000	2,830	(2,170)
Sign / ordinances	4,500	4,500	6,818	2,318
Solid waste / recycling	68,500	68,500	72,452	3,952
Solid waste / permits	75,000	75,000	86,567	11,567
Sewer fees	18,000	18,000	13,500	(4,500)
Fort Foster fees	80,000	80,000	115,082	35,082
Eliot dispatching services	58,400	58,400	58,400	-
Animal control	4,000	4,000	4,056	56
Mooring fees	29,000	29,000	33,483	4,483
Investment income	42,500	42,500	185,308	142,808
Other revenue				
Interest / fees on taxes	55,000	55,000	37,308	(17,692)
Other income	21,500	21,500	37,799	16,299
Other police income	13,700	13,700	13,520	(180)
School other	3,000	3,000	22,170	19,170
Other services	4,850	4,850	9,583	4,733
Transfers from other funds				
Permanent funds	25,000	25,000	25,000	-
Special revenue fund	200,000	200,000	257,851	57,851
Total revenues	<u>\$ 21,628,536</u>	<u>\$ 21,742,301</u>	<u>\$ 22,473,351</u>	<u>\$ 731,050</u>

See accompanying independent auditors' report

Other Supplementary Information

Other supplementary information includes financial statements and schedules not required by the Government Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

- Schedule of Departmental Operations – General Fund
- Combining Balance Sheet - Nonmajor Governmental Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds
- Combining Balance Sheet - Nonmajor Special Revenue Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Special Revenue Funds
- Combining Balance Sheet – Nonmajor Capital Projects Funds
- Combining Schedule of Revenue, Expenditures and Changes in Fund Balance – Nonmajor Capital Project Funds
- Combining Balance Sheet – Nonmajor Permanent Funds
- Combining Schedule of Revenue, Expenditures and Changes in Fund Balance – Nonmajor Permanent Funds
- Schedule of General Capital Assets by Function
- Schedule of Changes in General Capital Assets by Function

SCHEDULE A

TOWN OF KITTEERY, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2006

	Budget	Applied Revenues/ Other	Total Available	Actual	Lapsed	Carried
General government						
Administration	\$ 788,534	-	\$ 788,534	\$ 789,149	\$ (615)	\$ -
Assessing	173,035	-	173,035	164,338	8,697	-
Code enforcement	107,585	-	107,585	110,539	(2,954)	-
Town planner	150,329	-	150,329	144,322	6,007	-
Insurance	151,132	-	151,132	146,060	5,072	-
Planning board	16,613	-	16,613	14,652	1,961	-
Elections	16,133	-	16,133	14,990	1,143	-
Council	8,850	-	8,850	10,416	(1,566)	-
Bank fees	175	-	175	-	175	-
	<u>1,412,386</u>	<u>-</u>	<u>1,412,386</u>	<u>1,394,466</u>	<u>17,920</u>	<u>-</u>
Public safety						
Police department	2,225,512	-	2,225,512	2,162,139	63,373	-
Fire department	219,159	-	219,159	212,551	6,608	-
Street lights	117,000	-	117,000	110,493	6,507	-
Hydrants	175,828	-	175,828	174,312	1,516	-
Civil emergency preparedness	2,450	-	2,450	-	2,450	-
	<u>2,739,949</u>	<u>-</u>	<u>2,739,949</u>	<u>2,659,495</u>	<u>80,454</u>	<u>-</u>
Public works:						
Highways	912,168	-	912,168	849,973	62,195	-
	<u>912,168</u>	<u>-</u>	<u>912,168</u>	<u>849,973</u>	<u>62,195</u>	<u>-</u>
Health and sanitation:						
Solid waste	689,703	-	689,703	646,306	43,397	-
	<u>689,703</u>	<u>-</u>	<u>689,703</u>	<u>646,306</u>	<u>43,397</u>	<u>-</u>
Social services						
General assistance	40,000	-	40,000	37,786	2,214	-
Community agencies	17,236	-	17,236	17,236	-	-
Public health services	4,125	-	4,125	4,125	-	-
	<u>61,361</u>	<u>-</u>	<u>61,361</u>	<u>59,147</u>	<u>2,214</u>	<u>-</u>

SCHEDULE A (CONTINUED)

TOWN OF KITTERY, MAINE
SCHEDULE OF DEPARTMENTAL OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2006

	Applied		Available	Actual	Balances	
	Budget	Revenues/ Other			Lapsed	Carried
			Total			
Recreation and culture:						
Parks	234,126	-	234,126	190,922	43,204	-
Recreation	446,807	-	446,807	430,261	16,546	-
Library	396,230	-	396,230	396,230	-	-
Port Authority	57,595	-	57,595	55,202	2,393	-
	<u>1,134,758</u>	<u>-</u>	<u>1,134,758</u>	<u>1,072,615</u>	<u>62,143</u>	<u>-</u>
Education	<u>12,873,669</u>	<u>-</u>	<u>12,873,669</u>	<u>12,917,662</u>	<u>(43,993)</u>	<u>-</u>
County tax	<u>678,581</u>	<u>-</u>	<u>678,581</u>	<u>678,581</u>	<u>-</u>	<u>-</u>
Debt service						
Principal	340,000	-	340,000	340,000	-	-
Interest	85,617	-	85,617	85,617	-	-
	<u>425,617</u>	<u>-</u>	<u>425,617</u>	<u>425,617</u>	<u>-</u>	<u>-</u>
Designated						
Parks commission	60	-	60	-	60	-
Police / fire radio replacement	-	63,356	63,356	27,932	35,424	-
Eastern Trail Management Dist	5,000	-	5,000	5,000	-	-
Annual block party	1,000	-	1,000	200	-	800
Foreside project	-	43,692	43,692	43,412	280	-
Homeland security	-	113,765	113,765	113,765	-	-
Municipal complex telephones	-	2,299	2,299	2,026	273	-
Volunteer recognition	1,500	-	1,500	300	1	1,199
Kittery foreside	500	11,140	11,640	8,172	(280)	3,748
General assistance software	4,000	-	4,000	4,000	-	-
Memorial field fencing	10,000	-	10,000	9,183	817	-
Brac expenses	15,000	386	15,386	15,028	358	-
Memorial day activities	600	-	600	-	600	-

SCHEDULE A (CONTINUED)

TOWN OF KITTERY, MAINE
SCHEDULE OF DEPARTMENTAL OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2006

	Budget	Applied Revenues/ Other	Total Available	Actual	Lapsed	Carried
Pool filler house	-	20,170	20,170	19,340	830	-
Emergency ambulance service	75,840	-	75,840	75,840	-	-
Kittery cable regulation board	500	-	500	514	(14)	-
Compensated absences	3,434	-	3,434	3,867	(433)	-
Seacoast shipyard association	5,000	-	5,000	5,000	-	1,350
Shellfish conservation commission	2,500	-	2,500	1,150	-	5,385
Conservation commission	4,670	5,096	9,766	4,381	-	-
Snowmobiles/handicapped/elderly	-	572	572	-	572	-
HVAC upgrade article 8	20,000	-	20,000	-	20,000	-
Self insurance claims	-	6,910	6,910	6,910	-	-
Grant matching funds	-	100,000	100,000	85,666	14,334	-
Emergency fuel account	40,000	-	40,000	29,000	11,000	-
Emergency facility repair fund	-	50,000	50,000	21,922	28,078	-
Computerized website mapping	-	14,900	14,900	1,000	13,900	-
Lg format copier / scanner	21,000	-	21,000	-	21,000	-
Traffic signals	100,000	-	100,000	-	100,000	-
Sidewalk / snowplow	-	83,000	83,000	83,000	-	-
Seapoint road causeway	-	120,000	120,000	288	119,712	-
Haley field project	-	50,000	50,000	-	50,000	-
Comprehensive planning grant	-	-	-	17,342	(17,342)	-
Fuel depot upgrade	-	28,000	28,000	29,292	(1,292)	-
Maine service center coalition	1,000	-	1,000	954	46	-
	311,604	713,286	1,024,890	614,484	360,008	12,482
Transfers						
Major capital projects	303,486	-	303,486	303,486	-	-
Non-major capital projects	509,524	-	509,524	509,524	-	-
Sewer fund	61,100	-	61,100	61,100	-	-
	874,110	-	874,110	874,110	-	-
Total Expenditures	\$ 22,113,906	\$ 713,286	\$ 22,827,192	\$ 22,192,456	\$ 584,338	\$ 12,482

See accompanying independent auditors' report

SCHEDULE B

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash	\$ 79,974	\$ -	\$ 112,344	\$ 192,318
Investments	531,188	1,864,580	864,874	3,260,642
Accounts receivable	103,089	-	74,243	177,332
Due from other funds	789,256	112,651	-	901,907
Total assets	<u>\$ 1,503,507</u>	<u>\$ 1,977,231</u>	<u>\$ 1,051,461</u>	<u>\$ 4,532,199</u>
LIABILITIES				
Accounts Payable	\$ 14,005	\$ 27,707	\$ -	\$ 41,712
Due to other funds	40,134	18,019	-	58,153
Total liabilities	<u>54,139</u>	<u>45,726</u>	<u>-</u>	<u>99,865</u>
FUND EQUITY				
Fund balance:				
Unreserved:				
Designated for subsequent years'				
expenditures	<u>1,449,368</u>	<u>1,931,505</u>	<u>1,051,461</u>	<u>4,432,334</u>
Total fund equity	<u>1,449,368</u>	<u>1,931,505</u>	<u>1,051,461</u>	<u>4,432,334</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,503,507</u>	<u>\$ 1,977,231</u>	<u>\$ 1,051,461</u>	<u>\$ 4,532,199</u>

See accompanying independent auditors' report

SCHEDULE C

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental revenue	\$ 674,337	\$ 198,497	\$ 86,420	\$ 959,254
Charges for services	215,256	13,500	-	228,756
Investment income	22,088	55,914	36,852	114,854
	<u>911,681</u>	<u>267,911</u>	<u>123,272</u>	<u>1,302,864</u>
EXPENDITURES				
Administration	3,144	13,447	13,316	29,907
Public safety	67,345	7,383	119	74,847
Public works	-	177,393	-	177,393
Education	598,624	-	-	598,624
Capital outlay	18,983	440,843	-	459,826
	<u>688,096</u>	<u>639,066</u>	<u>13,435</u>	<u>1,340,597</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>223,585</u>	<u>(371,155)</u>	<u>109,837</u>	<u>(37,733)</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	56,343	509,524	-	565,867
Operating Transfers Out	(314,194)	-	(25,000)	(339,194)
TOTAL OTHER FINANCING SOURCES	<u>(257,851)</u>	<u>509,524</u>	<u>(25,000)</u>	<u>226,673</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(34,266)	138,369	84,837	188,940
FUND BALANCE, JULY 1	<u>1,483,634</u>	<u>1,793,136</u>	<u>966,624</u>	<u>4,243,394</u>
FUND BALANCE, JUNE 30	<u>\$ 1,449,368</u>	<u>\$ 1,931,505</u>	<u>\$ 1,051,461</u>	<u>\$ 4,432,334</u>

See accompanying independent auditors' report.

Special Revenue Funds

Special revenue funds are established to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
FOR YEAR ENDED JUNE 30, 2006

	Sewer Impact Fees	Sewer Betterment Fees	GMH Police / Fire Rescue	Storm Damage / FEMA	Route One Sewer Project
ASSETS					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	490,884	10,451	-	8,388	21,465
Accounts receivable (net of allowance)	-	84,388	-	-	-
Due from other funds	244,000	72,711	79,233	-	-
TOTAL ASSETS	<u>\$ 734,884</u>	<u>\$ 167,550</u>	<u>\$ 79,233</u>	<u>\$ 8,388</u>	<u>\$ 21,465</u>
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	33,784
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,784</u>
FUND EQUITY					
Fund balance:					
Unreserved:					
Designated for subsequent years'					(12,319)
expenditures	734,884	167,550	79,233	8,388	(12,319)
TOTAL FUND EQUITY	<u>734,884</u>	<u>167,550</u>	<u>79,233</u>	<u>8,388</u>	<u>(12,319)</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 734,884</u>	<u>\$ 167,550</u>	<u>\$ 79,233</u>	<u>\$ 8,388</u>	<u>\$ 21,465</u>

TOWN OF KITTYRY, MAINE

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
FOR YEAR ENDED JUNE 30, 2006

	Special Education Reserve	Adult Education	Unemployment Fund	Other School Grants	Totals
ASSETS					
Cash	\$ -	\$ -	\$ 69,088	\$ 10,886	\$ 79,974
Investments	-	-	-	-	531,188
Accounts receivable (net of allowance)	-	-	-	18,701	103,089
Due from other funds	322,384	26,553	-	44,375	789,256
TOTAL ASSETS	<u>\$ 322,384</u>	<u>\$ 26,553</u>	<u>\$ 69,088</u>	<u>\$ 73,962</u>	<u>\$ 1,503,507</u>
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts payable	\$ -	\$ 196	\$ -	\$ 13,809	\$ 14,005
Due to other funds	-	-	-	6,350	40,134
TOTAL LIABILITIES	<u>-</u>	<u>196</u>	<u>-</u>	<u>20,159</u>	<u>54,139</u>
FUND EQUITY					
Fund balance:					
Unreserved	322,384	26,357	69,088	53,803	1,449,368
Designated for subsequent years' expenditures	<u>322,384</u>	<u>26,357</u>	<u>69,088</u>	<u>53,803</u>	<u>1,449,368</u>
TOTAL FUND EQUITY	<u>\$ 322,384</u>	<u>\$ 26,553</u>	<u>\$ 69,088</u>	<u>\$ 73,962</u>	<u>\$ 1,503,507</u>
TOTAL LIABILITIES AND FUND EQUITY					

TOWN OF KITTYRY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - NONMAJOR
 SPECIAL REVENUE FUNDS
 FOR YEAR ENDED JUNE 30, 2006

	Sewer Impact Fees	Sewer Betterment Fees	GMH Police / Fire Rescue	Storm Damage / FEMA	Route One Sewer Project
REVENUES					
Intergovernmental revenue	\$ -	\$ -	\$ 60,162	\$ -	\$ -
Charges for services	104,000	111,256	-	-	-
Investment income	17,594	3,432	-	336	383
Total revenue	<u>121,594</u>	<u>114,688</u>	<u>60,162</u>	<u>336</u>	<u>383</u>
EXPENDITURES					
Administration	2,388	482	-	47	-
Public safety	-	-	67,345	-	-
Education	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenses	<u>2,388</u>	<u>482</u>	<u>67,345</u>	<u>47</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>119,206</u>	<u>114,206</u>	<u>(7,183)</u>	<u>289</u>	<u>383</u>
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	<u>(61,100)</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(61,100)</u>	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>58,106</u>	<u>(85,794)</u>	<u>(7,183)</u>	<u>289</u>	<u>383</u>
FUND BALANCE, JULY 1	<u>676,778</u>	<u>253,344</u>	<u>86,416</u>	<u>8,099</u>	<u>(12,702)</u>
FUND BALANCE, JUNE 30	<u>\$ 734,884</u>	<u>\$ 167,550</u>	<u>\$ 79,233</u>	<u>\$ 8,388</u>	<u>\$ (12,319)</u>

TOWN OF KITTY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – NONMAJOR
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Education Reserve	Adult Education	Unemployment Fund	Other School Grants	Totals
REVENUES					
Intergovernmental revenue	\$ -	\$ 81,073	\$ -	\$ 533,102	\$ 674,337
Charges for services	-	-	-	-	215,256
Investment income	-	-	343	-	22,088
Total revenue	-	81,073	343	533,102	911,681
EXPENDITURES					
Administration	-	-	227	-	3,144
Public safety	-	-	-	-	67,345
Education	-	124,437	-	474,187	598,624
Capital outlay	18,983	-	-	-	18,983
Total expenses	18,983	124,437	227	474,187	688,096
EXCESS OF REVENUES OVER (UNDER)					
EXPENDITURES	(18,983)	(43,364)	116	58,915	223,585
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	-	56,343	-	-	56,343
Operating Transfers Out	-	(2,420)	-	(50,674)	(314,194)
TOTAL OTHER FINANCING SOURCES (USES)	-	53,923	-	(50,674)	(257,851)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(18,983)	10,559	116	8,241	(34,265)
FUND BALANCE JULY 1	341,367	15,798	68,972	45,562	1,483,634
FUND BALANCE, JUNE 30	\$ 322,384	\$ 26,357	\$ 69,088	\$ 53,803	\$ 1,449,368

See accompanying independent auditors' report.

Capital Projects Funds

Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust fund.

TOWN OF KITTY, MAINE

COMBINING BALANCE SHEET - NONMAJOR CAPITAL FUNDS
JUNE 30, 2006

	State Aid to Roads	Drainage Projects	Emery Field	Land / Fire Station / Rec Field	Road Construction	Sidewalk Program
ASSETS						
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	887,346	14,215	6,900	5,272	93,959	4,213
Due from other funds	-	-	-	-	-	-
Total assets	<u>\$ 887,346</u>	<u>\$ 14,215</u>	<u>\$ 6,900</u>	<u>\$ 5,272</u>	<u>\$ 93,959</u>	<u>\$ 4,213</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	6,682	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,682</u>	<u>-</u>	<u>-</u>
FUND EQUITY						
Fund balance						
Unreserved	887,346	14,215	6,900	(1,410)	93,959	4,213
Designated for subsequent years	887,346	14,215	6,900	(1,410)	93,959	4,213
Total fund equity	<u>\$ 887,346</u>	<u>\$ 14,215</u>	<u>\$ 6,900</u>	<u>\$ 5,272</u>	<u>\$ 93,959</u>	<u>\$ 4,213</u>
TOTAL LIABILITIES AND FUND EQUITY						
	<u>\$ 887,346</u>	<u>\$ 14,215</u>	<u>\$ 6,900</u>	<u>\$ 5,272</u>	<u>\$ 93,959</u>	<u>\$ 4,213</u>

COMBINING BALANCE SHEET - NONMAJOR CAPITAL FUNDS

JUNE 30, 2006

	Asphalt Surface Maintenance	Solid Waste Vehicle / Equipment	Fort Foster Management	Recreation Vehicle	Highway Vehicle	Fire Dept Vehicle
ASSETS						
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	60,771	102,626	3,236	17,344	19,904	125,912
Due from other funds	-	-	-	-	-	9,500
Total assets	<u>\$ 60,771</u>	<u>\$ 102,626</u>	<u>\$ 3,236</u>	<u>\$ 17,344</u>	<u>\$ 19,904</u>	<u>\$ 135,412</u>
LIABILITIES						
Accounts payable	\$ -	\$ 15,350	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	3,500	-	-	-
Total liabilities	<u>-</u>	<u>15,350</u>	<u>3,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND EQUITY						
Fund balance:						
Unreserved:						
Designated for subsequent years'	60,771	87,276	(264)	17,344	19,904	135,412
Total fund equity	<u>60,771</u>	<u>87,276</u>	<u>(264)</u>	<u>17,344</u>	<u>19,904</u>	<u>135,412</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 60,771</u>	<u>\$ 102,626</u>	<u>\$ 3,236</u>	<u>\$ 17,344</u>	<u>\$ 19,904</u>	<u>\$ 135,412</u>

SCHEDULE F (CONTINUED)

TOWN OF KITTYRY, MAINE

COMBINING BALANCE SHEET – NONMAJOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2006

	Parks Dept Vehicle	Building Swimming Pool	Thermal Imager	Storm Drain Mapping	Port Authority Boat	Badgers Island Cemetery
ASSETS						
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	18,921	47,200	2,324	16,494	3,747	38,313
Due from other funds	1,990	-	-	-	-	-
Total assets	<u>\$ 20,911</u>	<u>\$ 47,200</u>	<u>\$ 2,324</u>	<u>\$ 16,494</u>	<u>\$ 3,747</u>	<u>\$ 38,313</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	1,554	-	-	-	-
Total liabilities	<u>-</u>	<u>1,554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND EQUITY						
Fund balance:						
Unreserved	20,911	45,646	2,324	16,494	3,747	38,313
Designated for subsequent years'	<u>20,911</u>	<u>45,646</u>	<u>2,324</u>	<u>16,494</u>	<u>3,747</u>	<u>38,313</u>
Total fund equity	<u>\$ 20,911</u>	<u>\$ 47,200</u>	<u>\$ 2,324</u>	<u>\$ 16,494</u>	<u>\$ 3,747</u>	<u>\$ 38,313</u>
TOTAL LIABILITIES AND FUND EQUITY						
	<u>\$ 20,911</u>	<u>\$ 47,200</u>	<u>\$ 2,324</u>	<u>\$ 16,494</u>	<u>\$ 3,747</u>	<u>\$ 38,313</u>

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2006

	Computer	Police Drug Forfeiture	Police Vehicle Equipment	Solid Waste Equipment	Computer Mapping	Office Restrooms
ASSETS						
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	2,511	29,537	52,975	201,415	2,825	42
Due from other funds	-	-	-	15,350	-	-
Total assets	<u>\$ 2,511</u>	<u>\$ 29,537</u>	<u>\$ 52,975</u>	<u>\$ 216,765</u>	<u>\$ 2,825</u>	<u>\$ 42</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	3,077	-	-	-	-
Total liabilities	<u>-</u>	<u>3,077</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND EQUITY						
Fund balance:						
Unreserved:						
Designated for subsequent years'	2,511	26,460	52,975	216,765	2,825	42
Total fund equity	<u>2,511</u>	<u>26,460</u>	<u>52,975</u>	<u>216,765</u>	<u>2,825</u>	<u>42</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,511</u>	<u>\$ 29,537</u>	<u>\$ 52,975</u>	<u>\$ 216,765</u>	<u>\$ 2,825</u>	<u>\$ 42</u>

SCHEDULE F (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2006

	Records Preservation	Architectural Barrier	Munis Software	Irving Oil Road	Mercury UW Facility	Totals
ASSETS						
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	791	105,787	-	-	-	1,864,580
Due from other funds	-	-	45,638	40,173	-	112,651
Total assets	<u>\$ 791</u>	<u>\$ 105,787</u>	<u>\$ 45,638</u>	<u>\$ 40,173</u>	<u>\$ -</u>	<u>\$ 1,977,231</u>
LIABILITIES						
Accounts payable	\$ -	\$ 12,357	\$ -	\$ -	\$ -	\$ 27,707
Due to other funds	-	-	-	-	3,206	18,019
Total liabilities	<u>-</u>	<u>12,357</u>	<u>-</u>	<u>-</u>	<u>3,206</u>	<u>45,726</u>
FUND EQUITY						
Fund balance						
Unreserved	791	93,430	45,638	40,173	(3,206)	1,931,505
Designated for subsequent years'	791	93,430	45,638	40,173	(3,206)	1,931,505
Total fund equity	<u>791</u>	<u>93,430</u>	<u>45,638</u>	<u>40,173</u>	<u>(3,206)</u>	<u>1,931,505</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 791</u>	<u>\$ 105,787</u>	<u>\$ 45,638</u>	<u>\$ 40,173</u>	<u>\$ -</u>	<u>\$ 1,977,231</u>

See accompanying independent auditors' report

TOWN OF KITTYRY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR
CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2006

	State Aid to Roads	Drainage Projects	Emery Field	Land / Fire Station / Rec Field	Road Construction	Sidewalk Program
REVENUES						
Intergovernmental revenue	\$ 160,388	\$ -	\$ -	\$ -	\$ 1,430	\$ -
Other income	-	-	-	-	-	-
Investment income	21,029	449	446	55	2,820	-
Total revenue	<u>181,417</u>	<u>449</u>	<u>446</u>	<u>55</u>	<u>4,250</u>	<u>-</u>
EXPENDITURES						
Administration	-	60	578	65	-	114
Public safety	-	-	-	-	-	-
Public works	125,444	-	-	-	48,795	3,154
Education	-	-	-	-	-	-
Capital outlay	-	-	6,440	6,640	-	-
Total expenses	<u>125,444</u>	<u>60</u>	<u>7,018</u>	<u>6,705</u>	<u>48,795</u>	<u>3,268</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	55,973	389	(6,572)	(6,650)	(44,545)	(3,268)
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	137,582	-	-	-	55,000	10,000
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>137,582</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,000</u>	<u>10,000</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	193,555	389	(6,572)	(6,650)	10,455	6,732
FUND BALANCE, JULY 1	<u>693,791</u>	<u>13,826</u>	<u>13,472</u>	<u>5,240</u>	<u>83,504</u>	<u>(2,519)</u>
FUND BALANCE, JUNE 30	<u>\$ 887,346</u>	<u>\$ 14,215</u>	<u>\$ 6,900</u>	<u>\$ (1,410)</u>	<u>\$ 93,959</u>	<u>\$ 4,213</u>

See accompanying independent auditors' report.

SCHEDULE G (CONTINUED)

TOWN OF KITTYRY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR
CAPITAL PROJECTS

FOR THE YEAR ENDED JUNE 30, 2006

	Asphalt Surface Maintenance	Solid Waste Vehicle / Equipment	Forl Foster Management	Recreation Vehicle	Highway Vehicle	Fire Dept Vehicle
REVENUES						
Intergovernmental revenue	\$	\$	\$	\$	\$	\$
Other income						
Investment income	1,790	2,676	97	530	4,000	9,500
Total revenue	1,790	2,676	97	530	3,699	1,488
					7,699	10,988
EXPENDITURES						
Administration	1,122	878	17	71		209
Public safety	-	-	-	-		-
Public works	-	-	-	-		-
Education	-	-	-	-		-
Capital outlay	-	10,985	-	4,000	170,898	
Total expenses	1,122	11,863	17	4,071	170,898	209
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	668	(9,187)	80	(3,541)	(163,199)	10,779
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	7,500	14,850	-	2,500	82,426	85,000
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	7,500	14,850	-	2,500	82,426	85,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	8,168	5,663	80	(1,041)	(80,773)	95,779
FUND BALANCE JULY 1	52,603	81,613	(344)	18,385	100,677	39,633
FUND BALANCE JUNE 30	\$ 60,771	\$ 87,276	\$ (264)	\$ 17,344	\$ 19,904	\$ 135,412

See accompanying independent auditors' report

TOWN OF KITTEERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR
CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2006

	Parks Dept Vehicle	Building Swimming Pool	Thermal Imager	Storm Drain Mapping	Port Authority Boat	Badgers Island Cemetery
REVENUES						
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	-	-	-
Investment income	446	5,699	175	481	72	1,343
Total revenue	<u>446</u>	<u>5,699</u>	<u>175</u>	<u>481</u>	<u>72</u>	<u>1,343</u>
EXPENDITURES						
Administration	65	-	-	-	11	-
Public safety	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Education	-	-	-	-	-	-
Capital outlay	-	129,421	2,089	3,064	-	3,030
Total expenses	<u>65</u>	<u>129,421</u>	<u>2,089</u>	<u>3,064</u>	<u>11</u>	<u>3,030</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	381	(123,722)	(1,914)	(2,583)	61	(1,687)
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	12,816	-	-	2,500	1,500	-
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>12,816</u>	<u>-</u>	<u>-</u>	<u>2,500</u>	<u>1,500</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	13,197	(123,722)	(1,914)	(83)	1,561	(1,687)
FUND BALANCE, JULY 1	7,714	169,368	4,238	16,577	2,186	40,000
FUND BALANCE, JUNE 30	<u>\$ 20,911</u>	<u>\$ 45,646</u>	<u>\$ 2,324</u>	<u>\$ 16,494</u>	<u>\$ 3,747</u>	<u>\$ 38,313</u>

See accompanying independent auditors' report.

TOWN OF KITTY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR
CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2006

	Computer	Police Drug Forfeiture	Police Vehicle Equipment	Solid Waste Equipment	Computer Mapping	Office Residence
REVENUES						
Intergovernmental revenue	\$ -	\$ 25,704	\$ 10,975	\$ -	\$ -	\$ -
Other income	-	-	-	-	-	-
Investment income	723	227	1,256	6,429	107	2
Total revenue	<u>723</u>	<u>25,931</u>	<u>12,231</u>	<u>6,429</u>	<u>107</u>	<u>2</u>
EXPENDITURES						
Administration	-	-	-	878	509	8
Public safety	-	7,383	-	-	-	-
Public works	-	-	-	-	-	-
Education	-	-	-	-	-	-
Capital outlay	31,479	-	44,305	-	-	-
Total expenses	<u>31,479</u>	<u>7,383</u>	<u>44,305</u>	<u>878</u>	<u>509</u>	<u>8</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(30,756)</u>	<u>18,548</u>	<u>(32,074)</u>	<u>5,551</u>	<u>(402)</u>	<u>(6)</u>
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	20,000	-	53,000	16,850	-	-
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>20,000</u>	<u>-</u>	<u>53,000</u>	<u>16,850</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(10,756)</u>	<u>18,548</u>	<u>20,926</u>	<u>22,401</u>	<u>(402)</u>	<u>(6)</u>
FUND BALANCE, JULY 1	13,267	7,912	32,049	194,364	3,227	48
FUND BALANCE, JUNE 30	<u>\$ 2,511</u>	<u>\$ 26,460</u>	<u>\$ 52,975</u>	<u>\$ 216,765</u>	<u>\$ 2,825</u>	<u>\$ 42</u>

See accompanying independent auditors' report

SCHEDULE G (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR
CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2006

	Records Preservation	Architectural Barrier	Munis Software	Irving Oil Road	Mercury UW Facility	Totals
REVENUES						
Intergovernmental revenue	\$	\$	\$	\$	\$	\$
Other income	-	-	-	-	-	13,500
Investment income	15	3,860	-	-	-	55,914
Total revenue	15	3,860	-	-	-	267,911
EXPENDITURES						
Administration	8,862	-	-	-	-	13,447
Public safety	-	-	-	-	-	7,383
Public works	-	-	-	-	-	177,393
Education	-	-	-	-	-	440,843
Capital outlay	-	28,492	-	-	-	639,066
Total expenses	8,862	28,492	-	-	-	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,847)	(24,632)	-	-	-	(371,155)
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	8,000	-	-	-	-	509,524
Operating Transfers Out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	8,000	-	-	-	-	509,524
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(847)	(24,632)	-	-	-	138,369
FUND BALANCE JULY 1	1,638	118,062	45,638	40,173	(3,206)	179,313
FUND BALANCE JUNE 30	\$ 791	\$ 93,430	\$ 45,638	\$ 40,173	\$ (3,206)	\$ 1,931,505

See accompanying independent auditors' report

Permanent Funds

Permanent funds are used to account for assets held by the Town of Kittery, Maine in trust or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds have been established for the provision and/or maintenance of the cemeteries, Public Health Trust and Lester Rayes Trust and the school department scholarships.

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR PERMANENT FUNDS
JUNE 30, 2006

	Cemetery Trust	Public Health Trust	Mary Safford Wildes	Lester Rayes Trust	Recycling Scholarship Fund
ASSETS					
Cash	\$ -	\$ -	\$ 13,429	\$ -	\$ -
Investments	126,824	24,826	625,157	8,787	27,288
Accounts receivable (net of allowance)	-	-	74,243	-	-
Due from other funds	-	-	-	-	-
Total assets	\$ 126,824	\$ 24,826	\$ 712,829	\$ 8,787	\$ 27,288
LIABILITIES					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-
FUND EQUITY					
Fund balance:					
Unreserved:					
Designated for subsequent years'	126,824	24,826	712,829	8,787	27,288
Total fund equity	126,824	24,826	712,829	8,787	27,288
TOTAL LIABILITIES AND FUND EQUITY	\$ 126,824	\$ 24,826	\$ 712,829	\$ 8,787	\$ 27,288

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR PERMANENT FUNDS

JUNE 30, 2006

	Trust Funds	Smart Thaxter	Beautification Funds	Totals
ASSETS				
Cash	\$ 98,915	\$ -	\$ -	\$ 112,344
Investments	-	-	51,992	864,874
Accounts receivable (net of allowance)	-	-	-	74,243
Due from other funds	-	-	-	-
Total assets	<u>\$ 98,915</u>	<u>\$ -</u>	<u>\$ 51,992</u>	<u>\$ 1,051,461</u>
LIABILITIES				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND EQUITY				
Fund balance:				
Unreserved:				
Designated for subsequent years'	98,915	-	51,992	1,051,461
Total fund equity	<u>98,915</u>	<u>-</u>	<u>51,992</u>	<u>1,051,461</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 98,915</u>	<u>\$ -</u>	<u>\$ 51,992</u>	<u>\$ 1,051,461</u>

See accompanying independent auditors' report.

TOWN OF KITTYRY, MAINE

COMBINING SCHEDULES OF REVENUES, EXPENDITURES, CHANGES IN FUND BALANCES - NONMAJOR
PERMANENT FUNDS
JUNE 30, 2006

	Cemetery Trust	Public Health Trust	Mary Safford Wildes	Lester Rayes Trust	Recycling Scholarship Fund
REVENUES					
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	-
Investment income	4,187	819	27,501	289	883
Total revenue	<u>4,187</u>	<u>819</u>	<u>27,501</u>	<u>289</u>	<u>883</u>
EXPENDITURES					
Administration	2,908	569	3,709	201	-
Public safety	-	-	-	-	119
Education	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenses	<u>2,908</u>	<u>569</u>	<u>3,709</u>	<u>201</u>	<u>119</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,279	250	23,792	88	764
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	-	-	-	-	-
Operating Transfers Out	-	-	(25,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(25,000)</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,279	250	(1,208)	88	764
FUND BALANCE, JULY 1	<u>125,545</u>	<u>24,576</u>	<u>714,037</u>	<u>8,699</u>	<u>26,524</u>
FUND BALANCE, JUNE 30	<u>\$ 126,824</u>	<u>\$ 24,826</u>	<u>\$ 712,829</u>	<u>\$ 8,787</u>	<u>\$ 27,288</u>

See accompanying independent auditors' report

TOWN OF KITTEY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR
 PERMANENT FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006

	School Trust Funds	Smart Thaxter	Samuels Beautification Funds	Totals
REVENUES				
Intergovernmental revenue	\$ 86,420	\$ -	-	86,420
Charges for services	-	-	-	-
Investment income	1,472	-	1,701	36,852
Total revenue	<u>87,892</u>	<u>-</u>	<u>1,701</u>	<u>123,272</u>
EXPENDITURES				
Administration	3,750	1,726	453	13,316
Public safety	-	-	-	119
Education	-	-	-	-
Capital outlay	-	-	-	-
Total expenses	<u>3,750</u>	<u>1,726</u>	<u>453</u>	<u>13,435</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	84,142	(1,726)	1,248	109,837
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	(25,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	84,142	(1,726)	1,248	84,837
FUND BALANCE, JULY 1 - RESTATED	<u>14,773</u>	<u>1,726</u>	<u>50,744</u>	<u>966,624</u>
FUND BALANCE, JUNE 30	<u>\$ 98,915</u>	<u>\$ -</u>	<u>\$ 51,992</u>	<u>\$ 1,051,461</u>

See accompanying independent auditors' report.

General Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets.

TOWN OF KITTYRY, MAINE

SCHEDULE OF GENERAL CAPITAL ASSETS BY FUNCTION
JUNE 30, 2006

	Land and Non-depreciable Assets	Buildings, Building Improvements & Land Improvements	Furniture, Fixtures, Equipment & Vehicles	Infrastructure	Total
Police	\$ -	\$ 84,458	\$ 735,811	\$ -	\$ 820,269
General government	-	2,680,000	159,152	-	2,839,152
Fire	1,953,200	1,878,843	1,260,620	-	5,092,663
Highway	8,579,000	1,758,384	2,810,967	9,381,629	22,529,980
Recycling	-	98,226	16,000	-	114,226
Recreation	-	151,254	66,029	-	217,283
Library	-	8,711	-	-	8,711
Town-wide	1,973,300	140,798	-	-	2,114,098
School Department	45,406	21,433,590	419,375	-	21,898,371
Sewer Department	21,363	14,890,259	230,752	-	15,142,374
School Lunch Program	-	-	98,256	-	98,256
Total General Capital Assets	12,572,269	43,124,523	5,796,962	9,381,629	70,875,383
Less: Accumulated Depreciation	-	(15,060,690)	(2,713,000)	(184,812)	(17,958,502)
Net General Capital Assets	\$ 12,572,269	\$ 28,063,833	\$ 3,083,962	\$ 9,196,817	\$ 52,916,881

See accompanying independent auditors' report.

TOWN OF KITTERY, MAINE

SCHEDULE OF CHANGES IN GENERAL CAPITAL ASSETS BY FUNCTION
JUNE 30, 2006

	General Assets 7/1/05	Additions	Deletions	General Capital Assets 6/30/06
Police	\$ 820,269	\$ -	-	\$ 820,269
General government	2,839,152	-	-	2,839,152
Fire	2,303,620	2,789,043	-	5,092,663
Highway	22,129,980	400,000	-	22,529,980
Recycling	114,226	-	-	114,226
Recreation	217,283	-	-	217,283
Library	8,711	-	-	8,711
Town-wide	2,114,098	-	-	2,114,098
School Department	21,898,371	-	-	21,898,371
Sewer Department	15,142,374	-	-	15,142,374
School Lunch Program	98,256	-	-	98,256
Total General Capital Assets	67,686,340	3,189,043	-	70,875,383
Less: Accumulated Depreciation	(16,258,155)	(1,700,347)	-	(17,958,502)
Net General Capital Assets	\$ 51,428,185	\$ 1,488,696	\$ -	\$ 52,916,881

See accompanying independent auditors' report.



Proven Expertise and Integrity

INDEPENDENT AUDITORS' REPORT ON STATE REQUIREMENTS

September 5, 2006

Town Council
Town of Kittery
Kittery, Maine

We have audited the financial statements of the Town of Kittery, Maine, for the year ended June 30, 2006 and have issued our report thereon dated September 5, 2006. Our audit was made in accordance with generally accepted auditing standards and applicable state and federal laws relating to financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we reviewed the budgetary controls in place, the EF-M-45 for the year ended June 30, 2006 due on July 15, 2006 and revised copy, quarterly EF-U-415 reports, and the Town's compliance with applicable provisions of the Maine Finance Act as we considered necessary in the circumstances.

The results of our procedures indicate that with respect to the items tested, the Town of Kittery, Maine, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Town of Kittery, Maine, was in noncompliance with, or in violation of, those provisions.

This report is intended solely for the information of the Town Council, management, and Department of Education. This report is not intended to be and should not be used by anyone other than the specified parties.

RHR Smith & Co.

Certified Public Accountants

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TOWN OF KITTERY, MAINE

RECONCILIATION OF EF-M-45 TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Revenues:

Total general fund revenue per EF-M-45	\$ 12,749,737
Add: Transfers not booked	11,478
Add: Accounts receivable	6,493
	<u>\$ 12,767,708</u>
Revenues per financial statements	<u>\$ 12,767,708</u>
Difference	<u>\$ -</u>

Expenditures:

Total general fund expenditures per EF-M-45	\$ 12,917,661
Rounding	1
Add: Transfers not booked	328,442
	<u>\$ 13,246,104</u>
Expenditures per financial statements	\$ 13,246,104
School lunch transfer	-
Cost not associated with EFM expenditures	-
	<u>\$ 13,246,104</u>
Difference	<u>\$ -</u>

